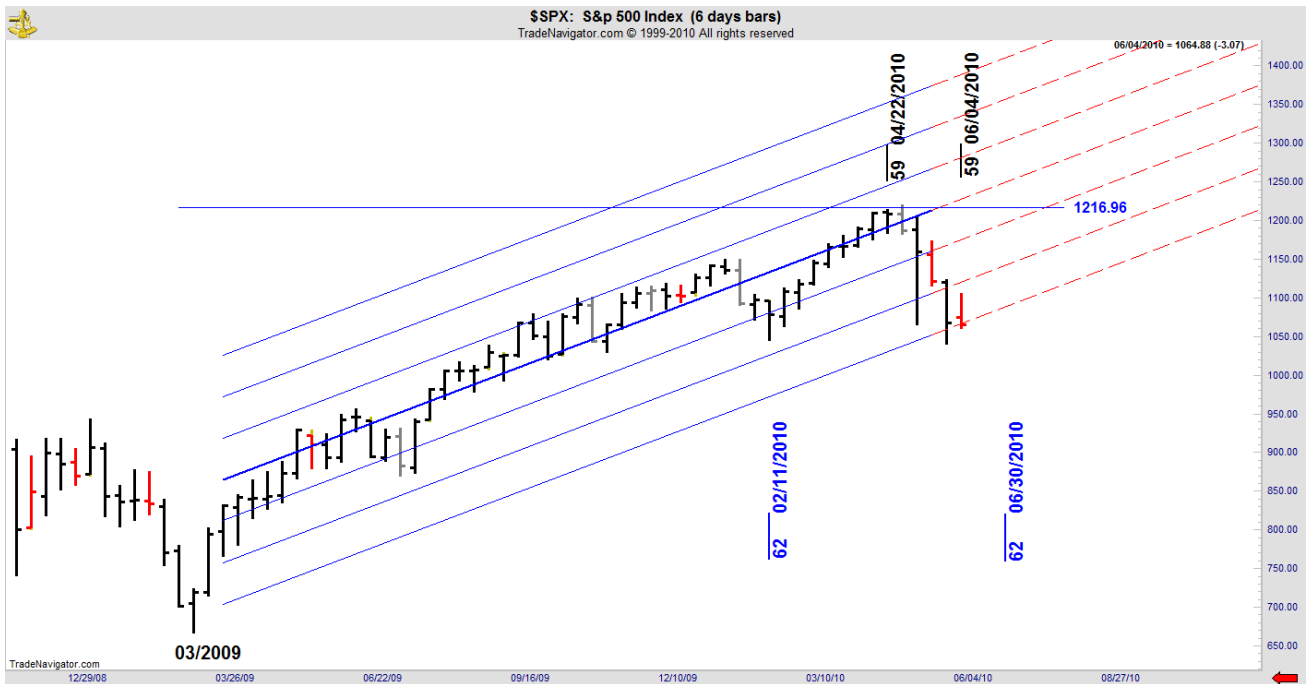**07 June 2010**

Long Term Trend Charts-Major Markets-S&P, Gold, DX, Oil, US T Bonds & EUR-USD

S&P

On 6 Day Regression Channel, trend is: DOWN.
On 12 Day Regression Channel, Trend is: UP with a conditional Sell signal created
On 24 Day Regression Channel, Trend is: UP

S&P found support for the week at the 3rd channel of the current regression solution. We don't have sufficient data to create a new downward sloping regression channel on the 6 day chart, but we can go down to a shorter term chart and use the same technique to get some insights into this market. I caution you that as you move down the time scale, this technique becomes less effective, but it is interesting to examine how markets work particularly in times of perceived crisis. That's my idea of stress testing.

So, on the one hand we have the contention from economists, talking heads and other pundits that the present correction in this market is panic selling caused by exogenous events, ie Greece, other European debt problems, PIIGS, fat thumbs etc. Take your pick.

These arguments support the Random Wave paradigm and justify the ignorance of its proponents.

My take on markets is that they are entirely organised and rational, and will continue to function in an orderly manner, even when apparent anomalies (Flash Crash) are so outside our blinkered expectations that we fail to comprehend their utter simplicity.

For the purpose only of advancing my argument, let's look at the current correction. The first point to note is that it started from the DC 59 "week" cycle which expired 04/22/10. That was the closing high for the rally. Below is the 2 day chart of the S&P index, complete with its regression channel:
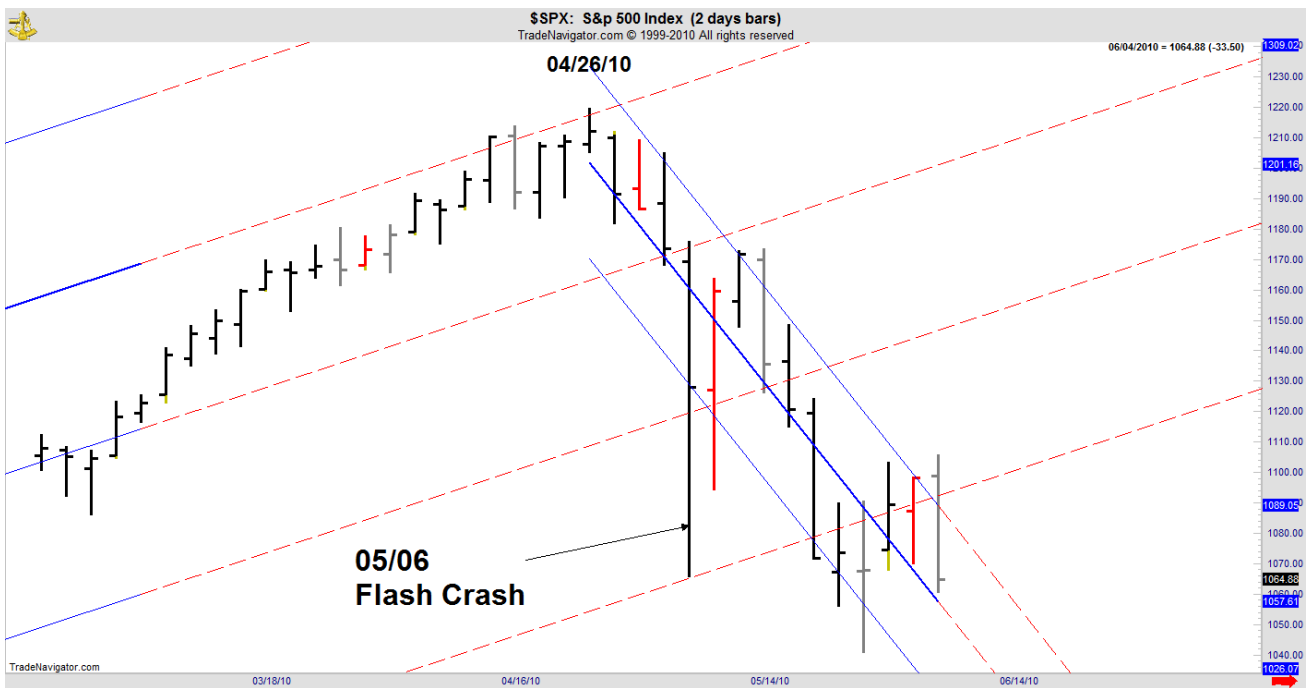
We can see that the 05/06 Flash Crash bottomed precisely at the 3rd iteration of the regression channel that ended on 03/04/10. There are rules as to how these channels are properly constructed. They don't just extend automatically. Other than that single observation, this chart appears to justify the "It's a panic" or "It's a fat thumb and not real" type comments that have accompanied this down move.

But look what happens if we convert this chart to a "close only" chart where the daily noise and overshoots are eliminated:
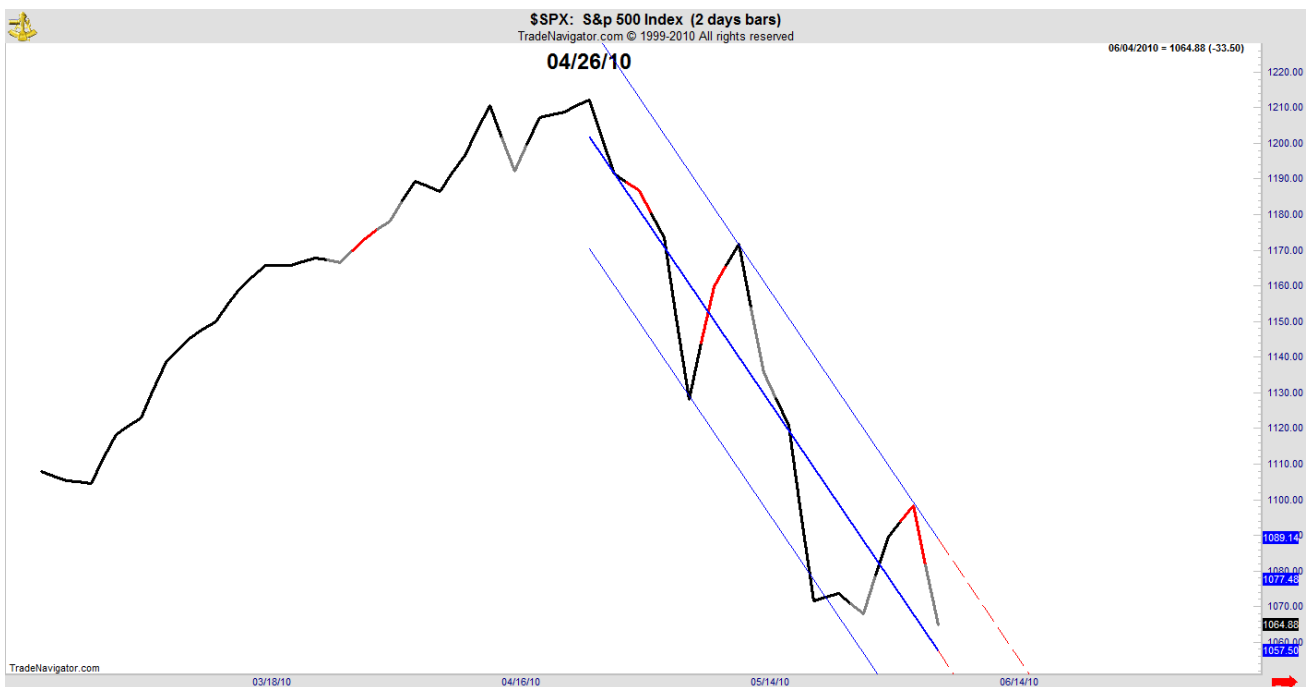
Perfectly perfect. And observing the same regression channel to a nicety. QED? Markets are orderly, rational and sometimes predictable.

From our first chart in this series, we see that we had a 59 DC Time cycle expiring last week 06/04 with a variance of +/- one period. That may give us an interim low, but since the 03/09 low which came exactly on a DC 59 week cycle (see "Master Class" articles), this cycle has given us tops with the 62 week cycle defining the bottoms. The next 62 cycle falls on 06/30/10.

Gold

On 6 Day Regression Channel, trend is: UP
On 12 Day Regression Channel, Trend is: UP
On 24 Day Regression Channel, Trend is: UP

The dominant DC vibration in Gold is 44. The recent assertion of the 59 week DC cycle in this market is because of Gold's relationship with DX. 59 is the DC number for DX and sometimes that sequence can become dominant on the Gold chart.
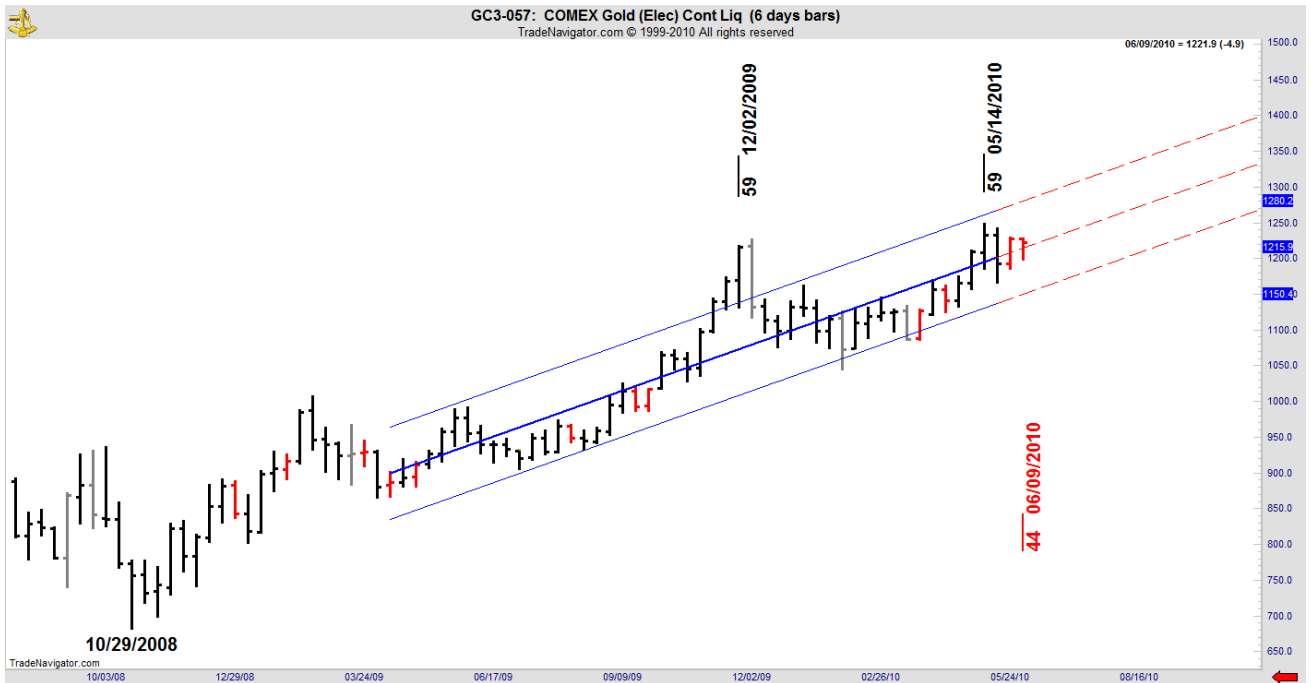
US Dollar Index (DX)

On 6 Day Regression Channel, trend is: UP.
On 12 Day Regression Channel, Trend is: UP
On 24 Day Regression Channel, Trend is: UP.

DX is roaring and the 24 day trend has flipped to UP. We picked this trend change in December 2009 and confirmed the Buy signal in January. That's what I call a decent swing trade!!
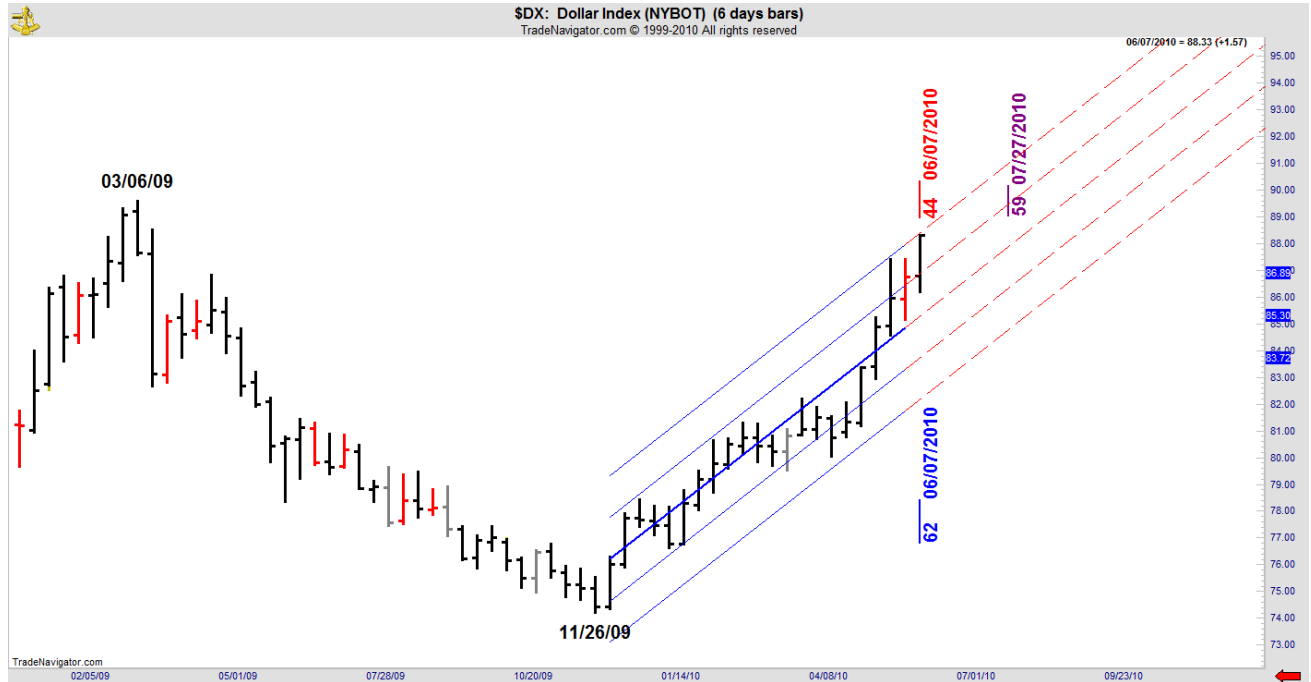
For the week ending 06/07 we have two DC Time cycles expiring. The 44 week cycle which is the DC number for Gold and the more general 62 week cycle. Last week we noted that Gold was running on the DX cycle of 59 and this week we watch with interest to see if the time cycle swap will bite in DX. This market is at overhead resistance from its upper regression channel.

OIL

On 6 Day Regression Channel, trend is: DOWN
On 12 Day Regression Channel, Trend is: UP, but with a conditional Sell signal
On 24 Day Regression Channel, Trend is: UP

I have moved the regression channel back one period on this chart, which more nicely defines the 02/12 low and current support at the 2nd iteration of the current regression channel. All of these charts, like the DC "Time" charts have a +/- variance of one period.

US T Bonds

On 6 Day Regression Channel, trend is: UP
On 12 Day Regression Channel, Trend is: UP
On 24 Day Regression Channel, Trend is: UP

This market is now tracking the Danielcode retracement numbers, and is correcting the major swing.
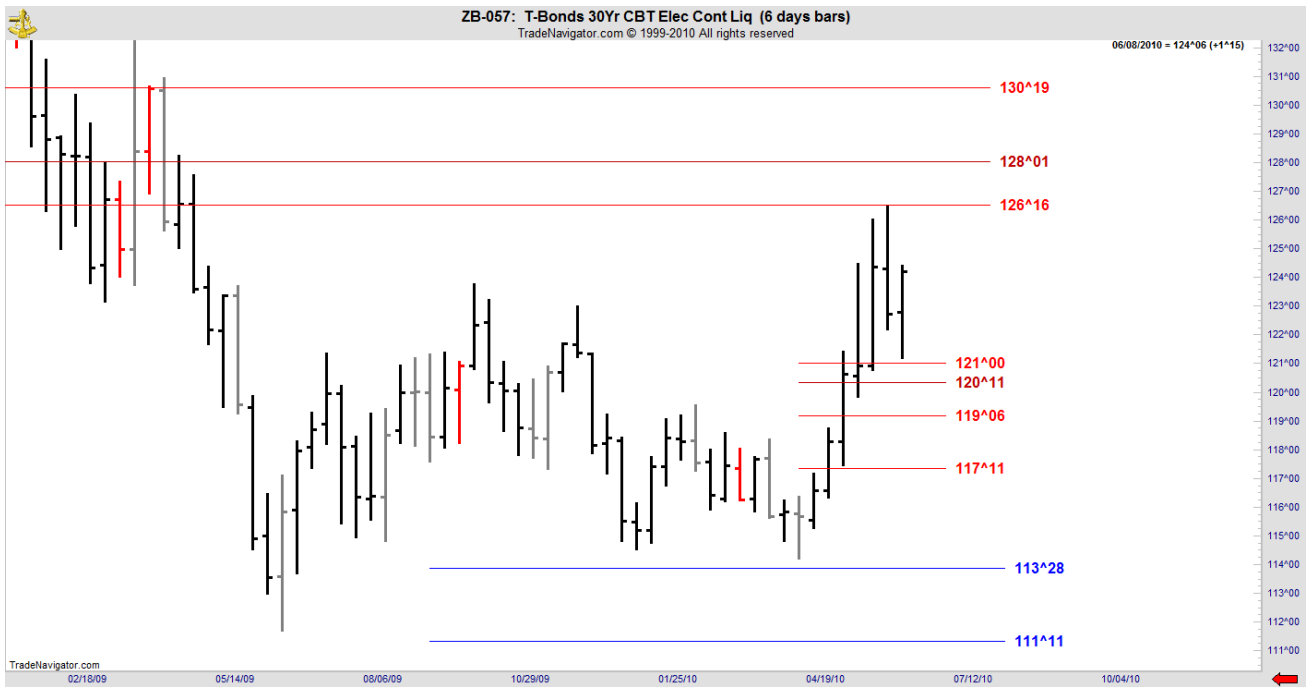
Last week's key reversal bar made its high at 126^15 just 1 tick from the next Danielcode retracement level shown on last week's charts. Do you think that markets know and recognise these DC numbers?

EUR-USD

Here's a nice chart of the Euro falling out of its DC Regression Channel as it capitulated into the next DC Blue line target at 12164. Trend is DOWN on all time series.

The long term chart below, puts the Euro's correction in perspective.